

January 27, 2021

AMEND BOARD REPORT 08-0827-PO8
FUND BALANCE AND BUDGET MANAGEMENT POLICY

THE CHIEF EXECUTIVE OFFICER RECOMMENDS:

That the Chicago Board of Education ("Board") amend the Fund Balance and Management Policy 08-0827-PO8. The policy was posted for public comment from November 16, 2020 to December 16, 2020.

PURPOSE:

The purpose of this policy amendment is to ensure that the Board Chicago Public Schools (CPS) manages its budget and finance finances in a fiscally prudent, equitable, and responsible way by establishing financial policies about the Balanced Budget, Fund Balance and Use of One-time Revenue regarding the following:

- Balanced Budget
- Fund Balance
- Use of One-time Revenues

The Balanced Budget ~~will require~~ requires that the total expenditure expenditures be equal to total revenues unless it meets exceptions described in this Policy. The establishment of a Fund Balance will ensure that the Board will accumulate an unreserved unrestricted fund balance (as defined below) to provide adequate working capital and to ensure a stable educational environment. One-time revenues will only be used for one-time expenditures so that there are consistent with the District's equity goals so that there is no affect effect to the ongoing operation operations of the Board or its equity strategy.

POLICY TEXT:**I. Definitions:**

Balanced Budget: When the total resources, including revenues and spendable prior-year fund balances, can cover or exceed the total budgeted expenditures. The Illinois School Code (~~ILSC 5/34-43~~) (105 ILCS 5/34-43) requires that, at a minimum, all governmental funds meet a statutorily balanced budget requirement.

Fund Balance: Is the difference between fund assets and deferred outflows and fund liabilities and deferred inflows consistent with the Generally Accepted Accounting Principles. Fund balance is also referred to as net assets. Within the governmental fund types, CPS' fund balances are reported in one of the following classifications:

~~Reserved Fund Balance: Consists of portions of fund balance that are either legally restricted to a specific future use or are not available for appropriation or expenditure. There are three types of potential restricted future uses of the reserved fund balance:~~

- ~~a. Reserve for Encumbrances: These funds are appropriated and encumbered balances for outstanding purchase orders, contracts, and other commitments for which goods and services have been ordered but not yet received in full.~~
- ~~b. Reserved for Debt Service: These funds are monies that are required by a bond indenture or similar agreement to be reserved for debt service payments.~~
- ~~c. Reserved for Specific Purposes: These reserves are spendable only for programs in specific purpose funds such as Tort and SGSA Funds.~~

Nonspendable – includes amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted – includes amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of CPS' highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless CPS removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. CPS' highest level of decision-making authority rests with CPS' Board of Education. CPS passes formal resolutions to commit their fund balances.

Assigned – includes amounts that are constrained by CPS' intent to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by: a) CPS' Board of Education itself or b) a body or official to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. CPS' Board has delegated the authority to assign amounts to be used for specific purposes to the Chief Financial Officer (CFO). Within the other governmental fund types (debt service and capital projects) resources are assigned in accordance with the established fund purpose and approved budget/appropriation. Residual fund balances in these fund types that are not restricted or committed are reported as assigned.

Unassigned – includes the residual fund balance that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

Unrestricted Fund Balance: Equals the total of Committed, Assigned and Unassigned Fund Balances, where the only constraint on spending, if any, is imposed by the Board.

Structurally Balanced Budget: When the total projected revenues and other financing sources that the Board accrues in a fiscal year are equal to or greater than the total expenditures and other financing uses. All governmental funds shall be structurally balanced unless they meet the exceptions listed below.

~~Unreserved Fund Balance: Unreserved fund balance represents expendable available financial resources and is subdivided into two types of resources:~~

~~a. Designated Fund Balance: Represents resources that have no limitations or stipulations placed on them by external agencies or donors but are internally restricted. For CPS, this balance is the same as its Stabilization Fund. The Stabilization Fund represents unreserved, designated fund balance approved and set aside by the Board to ensure adequate working capital and stable financial management and operation.~~

~~b. Undesignated Fund Balance: Is expendable financial resources in excess of the Stabilization Fund that can be used to balance budget or meet contingencies. Undesignated fund balance is not obligated to a specific purpose.~~

II. BALANCED BUDGET

The Board will adopt and maintain a balanced budget throughout its fiscal year for governmental funds which consist of the General Operating Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds. For the purposes of this Policy, revenues and expenditures are defined in accordance with Generally Accepted Accounting Principles (GAAP). A balanced budget is achieved when the total

resources, including revenues, other financing sources and spendable prior-year fund balances, equal or exceed the total budgeted expenditures and other financing uses. A structurally balanced budget is achieved when the total projected revenues that the Board accrues in a fiscal year are equal to or greater than the total expenditures. Each governmental fund shall have a structurally balanced budget unless it includes spendable prior year fund balance that is available under the terms of the Board's Fund Balance Policy.¹

III. FUND BALANCE

Section 5/34-43 of the Illinois School Code authorizes the Board to accumulate an ~~unreserved~~ fund balance in the General Operating Fund. The stated goals of maintaining a fund balance are to provide adequate working capital, ensure uninterrupted services in the event of unfavorable budget variances, to provide for capital improvements, and to achieve a balanced budget within a 4-year period. ~~It is the policy of the Board to require~~ sufficient funds must be retained all the time maintained in a reserve account to achieve these goals for operating funds. To facilitate the establishment and maintenance of such a reserve account achieve this stable financial base, the CPS Chicago Public Schools desires to manage its financial resources by establishing fund policies for governmental funds which consist of the General Fund, Special revenue funds, capital projects, and debt service funds adopts the following policy objectives for governmental funds. The District governmental funds are the General Operating Fund (including the Workers Compensation/Tort Fund), Capital Projects Funds and Debt Service Funds.

A. Fund Balance Target

Fund balance targets are established for the General Operating Fund ~~(including the Workers Compensation/Tort Fund), the Tort Fund, the Supplemental General State Aid Fund (SGSA), funds, Debt Service Funds and Capital Project Funds.~~ The set amounts differ for each fund and will require an annual review. Factors included in the determination of fund balance targets include predictability of revenues, legal requirements, bond indentures, potential volatility of expenditures and liquidity requirements.

The operating and debt service budget for the new fiscal year is the basis for calculating the ratio of ~~undesignated unrestricted~~ fund balance to proposed ~~expenditure~~ expenditures. In essence the current fiscal year's budgeted expenditures will determine the prior fiscal year's designated fund balance.

1. General Operating Fund

- i. ~~Unreserved, Designated Fund Balance (Stabilization Funds)~~ **Assigned Fund Balance (Stabilization Fund)** – This policy will require the Board to maintain an ~~unreserved, designated fund balance (assigned fund balance)~~ assigned fund balance totaling of a minimum of 5% and a maximum of 10% ~~15%~~ of the operating and debt service budget (net of any budgeted non-cash expenditures or budgeted expenses derived from the dedicated Chicago Teachers' Pension Fund property tax levy) for the new fiscal year as a stabilization fund in the General Operating Fund at the annual adoption of the budget.

The 5% ~~15%~~ is estimated to be the historical minimum cash required to provide sufficient cash flow for stable financial operations ~~The Chief Financial Officer (CFO) will propose to the Board a reasonable target amount that is within this~~

¹ Adhering to resource equity principles is important in achieving a structurally balanced budget for the District.

~~range during the budget process, and to reduce short-term borrowing costs.~~ It is the Board's goal that this stabilization fund will not be utilized unless there is an unforeseen financial emergency and a corresponding consensus decision among the Board members.

ii. **Criteria to use Stabilization Fund and Unassigned Fund Balance** ~~**Use of Excess Unassigned Fund Balance above the Stabilization fund**~~

~~Notwithstanding any other provision of this policy, unassigned fund balance, if sufficient and available, should be used before the use of funds from the Stabilization Fund. Further, the use of unassigned Fund Balance should only be for one-time expenditures. When the assigned stabilization fund is adequately established, any excess above the required stabilization funds will be "unreserved, undesignated fund balance"~~ If necessary, this fund balance in the General Fund an amount from the Stabilization Fund can be appropriated in the following budget year for one-time expenditures or under certain circumstances as outlined below:

- a. To offset temporary reduction in revenues from local, state, and federal sources
- b. When the Board decides to not increase the city of Chicago property taxes to the maximum allowable property tax cap
- c. To retire the Board's debt
- d. To fund major legal settlements or liability claims made against the Board
- e. To fund necessary one-time equipment or capital spending required for the Board²
- f. To pay for costs related to an unforeseen emergency or natural disaster
- g. To pay for specific education initiatives lasting no more than three years

iii. **Unreserved Fund Balance Replenishment** ~~**Assigned Fund Balance Replenishment**~~

It is the policy of the Board to maintain ~~a range of 5% to 10%~~ 15% of its operating and debt service budget in the stabilization fund and to allow ~~unreserved, undesignated~~ the Stabilization Fund fund balance ~~above the stabilization~~ to be used for the purposes listed in ~~Section 4 subsection III.A.1.ii.~~

In the event that the assigned stabilization fund decreases below ~~5%~~ 15% of the upcoming operating and debt service budget, the CFO will must prepare and present to the Board a plan to replenish the ~~reserve requirement~~ stabilization fund as part of the annual statement the CFO submits to the Board in conjunction with the Annual Budget (See Monitoring and Reporting section of this document). If necessary, any surplus CPS generates must first go towards replenishing the stabilization fund until the ~~minimum 5%~~ 15% goal is achieved and then to the ~~unreserved, undesignated~~ the unassigned fund balance. The Board must approve and adopt a plan to restore these balances to the target levels within a 12-month period. If restoration of the reserve cannot be accomplished within this period without severe hardship, then the CFO, Deputy CFO or Controller Budget Director may request that the Board approve an extension of this restoration deadline.

² This would include any necessary expenditure or capital spending to achieve or be in compliance with the District equity goals

2. Workers Compensation/Tort Fund:

The reserved but spendable restricted fund balance target for the Workers Comp/Tort Fund is no less than 1% and no more than 2% of the operating budget. This fund balance must only be used for expenses specified by the Illinois School Code ~~105 ILCS 5/18-8.05~~ 105 ILCS 5/2-3.170 such as unanticipated large tort, property loss, workers' compensation, or liability claims.

3. ~~Supplemental General State Aid Fund (SGSA):~~

~~The reserved but spendable fund balance shall equal the unused SGSA revenues from the previous year. According to the Illinois School Code 105 ILCS 5/18 all spendable fund balance will be re-appropriated in the subsequent year to all schools which did not spend its allocation in the prior years.~~

3.4. Capital Projects Funds:

~~Unreserved Restricted fund balance must equal the unused bond proceeds, revenues, and available fund balance from the previous fiscal year. All unreserved, undesignated fund balance in the Capital Projects Funds will be re-appropriated in the following year for eligible construction and renovation projects.~~

4.5. Debt Service Funds:

~~Funds reserved restricted for debt service are monies held as required by a bond indenture or similar agreement and maintained mostly with escrow agents. Unreserved Assigned funds in the Debt Service Funds represent the Board's efforts to cover risks related with swaptions, variable rate bonds, or auction rated bonds. The unreserved fund balance range for the Debt Service Funds shall be sufficient enough to cover potential risks such as termination, counterparty, and basis point increases in future debt service requirements. The Office of Treasury Department will must determine a the proper level of funds needed for this purpose each every fiscal year.~~

B. Monitoring and Reporting

The CFO must annually prepare a statement about the status of the fund balance in relation to this policy and present this statement to the Board ~~their findings~~ in conjunction with the ~~development presentation of the recommended~~ annual budget to the Board. Should the CFO disclose that the stabilization funds have below ~~less than 5%~~ 15% of the upcoming operating and debt service budget, a recommendation for fund balance accumulation must be included in the statement.

IV. ONE-TIME REVENUE


Revenue shall be considered to be one-time if it was not present in the prior fiscal year and if it is unlikely that it will be available in the following fiscal year. ~~The Board requires that the CPS shall not~~ must not use one-time revenues to fund ongoing expenditures. To do so might mean that CPS would be unable to make up the gap created by the expiration of the one-time revenues in the next budget period, a situation that could lead to service cuts.

One-time revenues will support only one-time expenditure items described below:

1. To retire the Board's debt.
2. To fund major legal settlements or liability claims made against the Board.
3. To fund necessary one-time equipment or capital spending required for the Board.
4. To pay for costs related to an unforeseen emergency or natural disaster.
5. To pay for specific education initiatives lasting no more than three years.
6. To increase the size of CPS' ~~budget~~ stabilization fund.

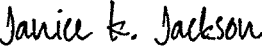
LEGAL REFERENCES: Illinois School Code 105 ILCS 5/34-43; ~~5/18-8.05~~ 105 ILCS 5/2-3.170;
745 ILCS 10/9-107

Approved for Consideration:

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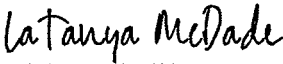
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